

Message Text

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SUBJECT: FIRST QUARTER TRADE DATA

REF: A) STATE 141390, B) MEXICO 9385, C) MEXICO 9580

1. BEGIN SUMMARY. DECLINE IN U.S. EXPORTS TO MEXICO
LIKELY TO BE TEMPORARY AND MEXICAN IMPORTS SHOULD BEGIN TO
INCREASE AS YEAR PROGRESSES, THOUGH THEY ARE UNLIKELY TO
EXCEED AVERAGE VALUE OF U.S. EXPORTS TO MEXICO OVER THE
PAST THREE YEARS. U.S. DATA SHOWS A BILATERAL TRADE SUR-
PLUS IN THE FIRST QUARTER FOR MEXICO THAT USG OFFICIALS
MAY WISH TO MAKE USE OF BOTH PUBLICLY AND PRIVATELY. END
SUMMARY.

2. DECLINE IN U.S. EXPORTS TO MEXICO IS DUE TO A) DEVALU-
ATION, B) RUNDOWN OF INVENTORIES, C) DECLINE IN IMPORTS
OF FOODSTUFFS (WHICH MAY BELONG UNDER B), AND E) ORGANI-
ZATION OF THE NEW ADMINISTRATION.

3. THE IMPACT OF PRICE CHANGES IS HARD TO MEASURE AND
THIS MAY HAVE BEEN GREATER IN THE LAST QUARTER OF 1976
THAN THE FIRST QUARTER OF 1977 AS DOMESTIC INFLATION
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REDUCED THE PRICE IMPACT.

4. A MORE IMPORTANT FACTOR MAY HAVE BEEN THE DECLINE IN
DOMESTIC INDUSTRIAL ACTIVITY WHICH WAS ACCOMPANIED BY
TIGHT DOMESTIC CREDIT CONDITIONS AND A RELUCTANCE TO TAKE
ON ADDITIONAL DOLLAR DEBT BECAUSE OF UNCERTAINTIES OVER
THE PESO EXCHANGE RATE. IT IS ALSO POSSIBLE, BUT DIFFI-

CULT TO CONFIRM, THAT THERE WAS A BUILD-UP OF INVENTORIES IN ANTICIPATION OF A DEVALUATION. THESE INVENTORIES HAVE SUBSEQUENTLY BEEN RUN-DOWN.

5. WE ANTICIPATE THAT MEXICO'S IMPORTS WILL INCREASE SLOWLY AS THE YEAR PROGRESSES. THERE ARE SIGNS THAT THE DECLINE IN INDUSTRIAL OUTPUT HAS ENDED (SEE MEXICO 10173). IMPORTS OF FOODSTUFFS ALREADY HAVE PICKED UP. IT IS NOT CLEAR WHY THEY WERE LOW IN THE FIRST QUARTER. PART OF THE DECLINE IN IMPORTS IN THE FIRST QUARTER MAY BE DUE TO THE ORGANIZATION OF THE LOPEZ PORTILLO ADMINISTRATION. THIS IMPACTED ON THE GENERAL LEVEL OF GOVERNMENT SPENDING AND PROBABLY AFFECTED IMPORTS AS WELL. FOODSTUFFS, FOR EXAMPLE, ARE LARGELY HANDLED BY THE STATE (CONASUPO) AND IT TOOK SOME TIME FOR THE NEW TEAM TO LEARN THE ROPES. THUS, PURCHASES WHICH SHOULD HAVE BEEN MADE IN THE FIRST QUARTER OR EVEN EARLIER WERE DEFERRED. ACCORDING TO MEXICAN DATA, PUBLIC SECTOR IMPORTS DECLINED 30.5 PERCENT (\$170.9 MILLION) FROM THE FIRST QUARTER OF 1976 TO THE FIRST QUARTER OF 1977. OVER THE SAME TIME PERIOD, PRIVATE SECTOR IMPORTS DECLINED 14.8 PERCENT. THE LOWER IMPORTS OF FOODSTUFFS IS A FACTOR IN THE REDUCED PUBLIC SECTOR IMPORT FIGURE.

6. WE DISCUSSED THE INCREASED EXPORTS IN REFS A AND B.

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7. AS WASHINGTON IS AWARE, U.S. AND MEXICAN TRADE STATISTICS ON BILATERAL TRADE ARE QUITE DIFFERENT, THE MAIN REASON FOR THIS BEING THE TREATMENT OF IN-BOND ASSEMBLY OPERATIONS. MEXICAN DATA FOR 1977 I SHOW U.S. EXPORTS TO MEXICO AS \$702.4 MILLION AND MEXICAN EXPORTS TO THE U.S. AT \$610.9 MILLION, FOR A BILATERAL TRADE DEFICIT FOR MEXICO OF \$91.5 MILLION. ADDING TO THIS THE VALUE ADDED BY THE IN-BOND ASSEMBLY PLANTS (\$113.5 MILLION), AND ASSUMING THIS REPRESENTS NET ADDITIONAL EXPORTS TO THE U.S. THEN MEXICAN DATA WOULD ALSO SHOW A SMALL (\$22 MILLION) TRADE SURPLUS WITH THE U.S.

8. WE BELIEVE THAT THIS BILATERAL TRADE SURPLUS ON THE PART OF MEXICO SHOULD BE MADE USE OF BY U.S. OFFICIALS WHEN THERE ARE COMPLAINTS BY MEXICANS OF A BILATERAL TRADE DEFICIT. IT IS POSSIBLE THAT BILATERAL TRADE WILL REMAIN IN SURPLUS FOR MEXICO FOR THE BALANCE OF THIS YEAR, PARTICULARLY IF THE BULK OF MEXICO'S PETROLEUM EXPORTS GO TO THE U.S. AS IS NOW THE CASE. WHILE WE ANTICIPATE A SIGNIFICANT INCREASE IN U.S. GRAIN AND OILSEED EXPORTS DURING THE BALANCE OF THE YEAR, THIS WILL BE OFFSET BY HIGHER EARNINGS FROM COFFEE. THOMPSON

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